

Locutus

THE NEWSLETTER OF INTELLECTUAL PROPERTY LAW, STATUTORY DECEPTIVE
CONDUCT AND FRANCHISING LAW.

Fourth Floor, St James Hall, 169 Phillip Street Sydney NSW 2000, DX 330 Sydney
Phone Number: 9237 0536

Author and sender of this e-mail: **Carmen Champion, Barrister-at-Law.**

E-mail: carmen.champion@stjames.net.au

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Welcome to Locutus

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Locutus is a newsletter of current news, recent cases, and practice decisions. It is authored by Carmen Champion Barrister-at-Law.

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Franchising

Haviv Holdings Pty Limited v Howards Storage World Pty Ltd [2009] FCA 242

Alleged breach of exclusive territory provision.

By the franchise agreement HSW granted to Haviv an exclusive franchise territory for a radius of 5 kilometres around the Burwood store. However, in August 2004 HSW entered into another franchise agreement for a Howards Storage World business in a store within the Rhodes shopping centre (the Rhodes store). The Rhodes store, and indeed the whole of the Rhodes shopping centre, is within the exclusive franchise territory HSW granted to Haviv. Haviv vacated the Burwood store on 17 August 2007 leaving it to HSW to operate. Haviv and HSW each purported to terminate the franchise agreement in early 2008, some three years after the opening of the Rhodes store in late November 2004.

Haviv claimed to have suffered loss and damage by reason of HSW's breach of the franchise agreement and breach of the Trade Practices Act 1974 (Cth).

The breach of contract claim consisted of two quite separate claims. The first was based on lost net profits which requires a comparison between the net profits Haviv would have earned but for the breach. The case is instructive on the factual matters the court considered relevant in making that assessment. The court concluded:

“It can readily be inferred that one of the primary purposes of the grant of an exclusive franchise territory is to regularise competition between HSW stores. Exclusivity of territory is a valuable right for a franchisee. Decrease in sales revenue (and thus the potential for net profits) is precisely the type of loss that would be expected from breach of the promise of an exclusive franchise territory. Such a decrease occurred in the present case immediately following the opening of the Rhodes store within

Haviv's exclusive franchise territory. Further, the fact that the Rhodes store is only just within Haviv's exclusive territory is immaterial because the whole of the Rhodes shopping centre is within that territory and HSW acknowledged that there was no other location within Rhodes where an HSW store could have been located. In other words, the relevant actual and hypothetical comparison is between – (i) the Burwood store and the Rhodes store (the actual situation caused by the breach), and (ii) the Burwood store with no store in Rhodes (the hypothetical situation).

These circumstances, including the trading figures for the Burwood store referred to above, show a breach of contract “closely followed by damage”, thus indicative of a “prima facie causal connection” between the breach and damage (see the observations of Kirby J in Chappel v Hart at 273, [93.8]). A “practical commonsense” approach to the question of damage indicates that the Rhodes store was a material cause of loss of net profits from the Burwood store after November 2004. I also accept Haviv's submissions that, as Haviv had proved a prima facie causal connection between the breach and the loss, it was a matter for HSW as the party in breach to “disentangle” any contribution to Haviv's loss caused by the Rhodes shopping centre (Henville v Walker at [148]; see also Amann Aviation at 94). “

The second was based on a lost opportunity in that the applicant argued that but for the breach the respondent would have granted it the right to conduct the Rhodes franchise. The court rejected the submissions made in support of that damages claim.

The court also considered the applicable date for the assessment of damages (see [59 – 62]) and the relevant discount rate ([63 – 84]).

Registered Designs

LED Technologies Pty Ltd v Elecspeess Pty Ltd [2008] FCA 1941

This is the first detailed judgement on the issue of design infringement.

The points of interest are:

- S.16(2): “newness and distinctiveness are to be assessed not by comparing the design in question to the prior art base as a whole but by comparing it individually to each relevant piece of prior art. Put another way, a design that combines various features, each of which can be found in the prior art base when considered as a whole but not in any one particular piece of prior art, is capable of being new or distinctive.”
- S. 39: the fact that the Condor Designs were accepted for registration said nothing with respect to their own newness and distinctiveness. Section 39 requires the Registrar to register any design (subject to certain exceptions: s 43) that satisfies certain formalities; there is no inquiry into whether the design is registrable. It is only during the examination process that the Registrar considers whether the design is registrable: s 65. Even then, a Registrar's decision upon examination is not entitled to judicial deference: see s 88.
- Authorship of a design is in the “person whose mind conceives the relevant shape, configuration, pattern or ornamentation applicable to the article in question and reduces it to visible form”: *Chris Ford Enterprises Pty Ltd v BH & JR Badenhop Pty Ltd* (1985) 7 FCR 75, 80.
- distinctiveness is to be assessed not by comparing the design in question to the prior art base as a whole but by comparing it individually to each relevant piece of prior art: s 15(1) read with ss 16(1) and (2). Part 4 of Chapter 2 of the 2003 Designs Act must be read as a whole. A design that combines various features, each of which can be found

in the prior art base when considered as a whole but not in any one particular piece of prior art, is capable of being distinctive: *Review 2 Pty Ltd v Redberry Enterprise Pty Ltd* [2008] FCA 1588 at [60]; *Karen Millen Ltd v Dunnes Stores Ltd* [2008] ECDR 11 at [82]-[84] (stating that the registered design must be assessed with regard to particular prior designs rather than a hypothetical amalgam of a number of prior designs). See also *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd* [2007] HCA 21; (2007) 235 ALR 202 (upholding the validity in the patent context of a combination of features known collectively in the prior art).

The judgment is an objective one. In assessing substantial similarity in overall impression, the standard to be applied is that of the informed user - namely, the court standing in the shoes of a notional person who is familiar with the product to which the design relates, or products similar to the product to which the design relates: s 19(4); *Review 2 Pty Ltd v Redberry Enterprise Pty Ltd* [2008] FCA 1588; see also *Dart Industries Inc v Decor Corporation Pty Ltd* (1989) 15 IPR 403, 408-409.

- Although it would be dangerous to attempt some comprehensive statement of principles that might be applied to the concept, it is apparent that an informed user is reasonably informed; not an expert but more informed than an average consumer; is an objective standard. However, expert evidence may still be adduced in court to assist the Court in applying the informed user concept; and focuses on visual features and is not concerned with internal features or features that are not visible to the naked eye.
- Infringement is determined by comparing the allegedly infringing product against the registered design, not by comparing a product embodying the registered design against the infringing product: s 71.
- The operation of the 2003 Designs Act must, in the absence of clear legislative guidance to the contrary, be confined to the territory of Australia.

Trade Marks

Health World Limited v Shin-Sun Australia Pty Ltd [2009] FCAFC 14

Issue: rectification of register of trade marks by expungement. Whether applicant aggrieved by reason of deceptive similarity alone or whether reputation necessary to show legal or practical disadvantage.

The primary judge had found that some, but not all, of the grounds alleged by Health World had been made out. Health World nevertheless failed in the proceedings because of the primary judge's conclusion that Health World had no standing to bring any of its applications under section 88 (2)(a) of the *Trade Marks Act 1995*.

Held: the conclusion of the primary judge that Health World lacked standing under s 88(1) was correct.

E & J Gallo Winery v Lion Nathan Australia Pty Limited [2009] FCAFC 27

Issues: whether the registered trade mark should be removed from the Register for non-use. Meaning of "used...in the course of trade...by a person". Whether there was an intention to use or authorisation

to use the trade mark. Whether the actual use of the mark was likely to deceive or cause confusion. Prospective operation of an order to remove a trade mark from the Register . Infringement – deceptive similarity – goods of the same description.

As Gallo formulated the question it was whether, when a registered trade mark is used in Australia on, or in physical or other relation to the goods, which are offered for sale and sold here but manufactured overseas by an owner or authorised user of the mark who applied the mark to them, the use of the mark constitutes a use by the owner, **even though** that person may not know that the goods are being offered for sale or sold in Australia but rather sold them to a foreign distributor for resale without any limitation on where they might be resold.

Held: *“In our opinion, the conclusion of the primary judge was correct. The contention of Gallo that an owner of a registered trademark uses the mark in Australia simply because goods to which the owner (or an authorised user) has affixed the mark are traded in the ordinary course of trade in Australia should be rejected” “the use of a trade mark is not use in a vacuum but rather it is use “in the course of trade by a person”. The remarks of Windeyer J in the above passage relied upon by Gallo require them to be understood in the context of a course of trade in Australia between a person, in that case the registered owner, and someone else not being the ultimate consumer. In this case the course of trade was between Gallo and the wholesale company in Germany. There was, objectively considered, no course of trade between Gallo and BAW or any other party in Australia. The primary judge was, in our respectful opinion, correct in so finding.”*

The primary judge, had concluded that Lion Nathan's radler beer did not constitute "goods of the same description" as wine. The Court rejected that view.

The Court rejected the Lion Nathan's argument that the word "RADLER" is sufficiently distinctive in the allegedly infringing mark it has used to remove the real possibility that the other word "BAREFOOT" would be sufficiently evocative of Gallo's trade mark to satisfy the test for deceptive similarity. The Court held that notwithstanding the inclusion of the word "RADLER" in Lion Nathan's mark, the word "BAREFOOT" remains prominent and there is an obvious and clear link between that word and an imperfect recollection of Gallo's registered mark such as to "likely deceive or cause confusion": s 10 TM Act..

On the section 120(2) issue the Court said: *“The last issue is Gallo's challenge to the primary judge's conclusion that Lion Nathan cannot be taken to have infringed Gallo's trade mark because using its sign as it did was not likely to deceive or cause confusion. This issue is raised by the concluding words of [s 120\(2\)](#) which have received only limited judicial consideration: see *Coca-Cola Company v All-Fect Distributors Ltd* [[1999\] FCA 1721](#); [[1999\] 96 FCR 107](#) at [[43](#)]. The words “as the person did” direct attention to the way in which, as a matter of fact, the alleged infringer has used the allegedly infringing trade mark. These concluding words pose a different question to that raised by the opening words of [s 120\(2\)](#) which, in the context of deceptive similarity, direct attention only to a comparison of the marks in the way already discussed. However, any conclusion about deceptive similarity would usually inform consideration of whether the actual use was likely to deceive or cause confusion. In a sense, an affirmative answer to the question of whether the alleged infringing mark was deceptively similar would be the starting point. If it was, then it would, in many instances, render it more likely (though not inevitable) that the actual use of the allegedly infringing mark was likely to deceive or cause confusion. Also relevant, in our opinion, would be the matters considered in determining whether the alleged infringer's goods are of the same description as the goods in respect*

of which the registered mark is registered.

Television Food Network, G.P. v Food Channel Network Pty Ltd (No 2) [2009] FCA 271

Review of decision of delegate of registrar to allow registration of trade mark. Trade mark application assigned to respondent before registration (original trade mark applicant and the respondent related companies). Whether original trade mark applicant owner at filing date. Whether ownership established through use or otherwise. Relationship between s 58 and s 27(1)(b)(ii). Whether explicit or implied authorisation to use trade mark. Whether defect in trade mark application fatal. Whether intention to use within meaning of s 59.

Held: registration of trade mark refused. Applicant made out prima facie case under s 58 and s 59. Evidentiary onus shifted to respondent under s 58 and s 59. Trade mark applicant at filing date must be owner of trade mark. Evidence of ownership of trade mark at time of application too confused to make finding as to ownership. Failure to establish trade mark applicant was owner of trade mark at filing date fatal to trade mark application. Assignment of trade mark application to respondent does not cure defect in trade mark application. Respondent's evidence of use of trade mark lacked credibility – intention of trade mark applicant to use trade mark not established under s 59 – amendment of trade mark did not substantially affect the identity of the trade mark for purposes of s 59. Use of “Food Network” and “Food Channel” deceptively similar on facts – s 52 Trade Practices Act 1974 (Cth) and passing off not substantially claimed – use of trade mark not contrary to law – no prior reputation of applicant's trade marks established within meaning of s 60.

Liquideng Farm Supplies Pty Ltd v Liquid Engineering 2003 Pty Ltd [2009] FCAFC 7

Issues: Determining an account of profits – meaning of good faith for the purpose of s 92(4) of the Trade Marks Act 1995 (Cth) – some sales not in breach – insufficient evidence. Whether an infringing party can claim remuneration or director's fees for carrying on the infringing activities – whether there was a failure to take into account evidence as to the proportion of infringing and non-infringing goods

Food Channel Network Pty Ltd ACN 079 015 339 v Television Food Network, G.P. [2009] FCA 68

Consideration of an application by a respondent for an order for security for costs of and incidental to appeal proceedings under s 104 of the Trade Marks Act 1995 (Cth). – Consideration of an application by the applicant in those proceedings for an order that the respondent provide security for the applicant's costs of and incidental to the proceeding

Whether there is power in the Court to order a respondent in the principal proceeding to provide security for the costs of the applicant of and incidental to the principal proceeding.

Held: *“Section 56 of the Court Act in conjunction with Order 28 of the Federal Court Rules contemplates an order for security directed to a person who makes a claim for relief in the relevant proceeding. Such a claim might be made by a respondent who agitates a cross-claim. There is no claim or cross-claim made by the respondent in this proceeding. If the source of the power is to be found in the Trade Marks Act 1995, s 222 of the Act does not confer that power upon the Court. It*

confers power on the Registrar to order a non-resident (or person not carrying on business in Australia) who makes a removal application under Part 9 of the Act, to give security for the costs of that proceeding.In principle, the scope of s 197(e) is broad enough to confer power on the Court to make an order against any party in all the circumstances in any given case, if the relevant discretionary factors are satisfied.

In this case, it is not necessary to consider any further the scope of the power particularly as it relates to a potential order that might be made against a respondent (if at all) as no order ought to be made in the exercise of discretion for these reasons. First, no claim for relief is made by the respondent other than to affirm the decision of the respondent's delegate challenged by the applicant by way of rehearing. Secondly, although the respondent initiated the proceeding before the Registrar and sought to remove the trade mark from the Register, the present applicant seeks the rehearing and could have put on before the Registrar all of the evidence that it now proposes to put on in the appeal. If all the evidence bearing on the question is as compelling as FCN contends, the Court proceeding and the attendant costs would not have been necessary. Thirdly, the applicant bore the rebuttal burden as a matter of law under s 100 of the Act before the Registrar in relation to any allegation made by TFN under s 92(4)(b) of the Act and failed to put on all the evidence that might have discharged that burden. Fourthly, the evidence as to the amount of costs which might be the subject of an order is scant".

And finally...

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